


Government of the District of Columbia  
Office of the Chief Financial Officer



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Phil Mendelson  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer 

**DATE:** October 30, 2013

**SUBJECT:** Fiscal Impact Statement – “Tax Clarity Equity Act of 2013”

**REFERENCE:** Bill 20-348, Draft Committee Print shared with the Office of Revenue  
Analysis on October 28, 2013

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**Conclusion**

Funds are sufficient in the 2014 through FY 2017 budget and financial plan to implement the bill.

The bill has a cost, but its fiscal impact will not be felt until FY 2018, which is outside of the financial plan. The bill will impose a cost of at least \$4 million per year between FY 2018 and FY 2022.

**Background**

Under current law,<sup>1</sup> taxpayers have three years (following the due date of return or the date the tax was paid) to claim a credit for or refund of an overpayment of District taxes. Additionally, if the Commissioner of the Internal Revenue Service (IRS) adjusts a taxpayers’ federal income tax, or a United States court, or the District court changes or corrects the taxpayer’s federal or District taxes, the taxpayer can file a claim for a credit or refund within 180 days of the date the change or correction is made or ordered, even when the three-year look back period has passed. These limitations were set by the Tax Clarity Act of 2000.<sup>2</sup>

The bill would allow taxpayers to receive a credit for tax years 1998 through 2000—three years preceding the Tax Clarity Act of 2000—if the taxpayer’s taxable income for these years was changed or corrected by the IRS. For the taxpayer to claim the credit, the changed and corrected taxable income must be based on a federal income tax provision to which the District conforms (such as income or franchise taxes), and the taxpayer be otherwise barred from applying for a

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<sup>1</sup> D. C. Official Code § 47-4304.

<sup>2</sup> Effective June 9, 2001 (D.C. Law 13-305; 48 DCR 334).

The Honorable Phil Mendelson

FIS: Bill 20-348, "Tax Clarity Equity Act of 2013," Draft Committee Print shared with the Office of Revenue Analysis on October 28, 2013

credit due to the statute of limitations set by the Tax Clarify Act. If these conditions are met, the taxpayer can receive the credit over a 4-year period in equal amounts. The first tax year in which the credit can be claimed is Tax Year 2018. The credit can be used towards any District tax obligation, but the taxpayer must designate on the return that requests the credit the tax type to which the credit shall apply.

### **Financial Plan Impact**

Funds are sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The bill has a cost, but its fiscal impact will not be felt until FY 2018, which is outside of the financial plan.

Information gathered on recent adjustments made by the IRS suggests that the credits that would be allowed under the bill would reduce tax revenue by at least \$15 million. Thus District's tax revenue will be reduced by approximately \$4 million per year between FY 2018 and 2022 (given that credits can be claimed over four years)

However, the costs could be larger if Office of Revenue Analysis' review is missing some federal adjustments that would now be allowable under the proposed bill, but were never claimed if the taxpayers assumed that the adjustments would not be allowable. Office of Revenue Analysis cannot provide a reliable estimate of what these costs could be, but the Council should be aware that the sums could be substantial.